

HUMAN RESOURCES BULLETIN 98-06

DESIGNATIONS OF TRUSTS AS BENEFICIARY

The Office of Personnel Management (OPM) has recently issued clarifying guidance on designation of trustees to receive the lump sum benefits payable under the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) upon the employee's death.

Employees may designate either a person or an institution as a trustee under the terms of a trust agreement. To ensure that designations are clear and to allow quick identification of the entitled party, OPM has published recommended formats to use for designations. These formats are not mandatory, but the following information **must** be included in any format used:

1. a statement that the CSRS or FERS lump sum death benefit is to be paid to the trustee or successor trustee
2. name and date of the trust

There are two different formats, i.e. one for *Inter Vivos* Trusts, which are those trusts established during the employee's lifetime, and one for *Testamentary* Trusts, which are those trusts established by the employee's will at death. To be valid, the trustee designation must be attached to, and be made a part of the agency Designation of Beneficiary form. The Designation of Beneficiary form should state "See Attached" in the space for the designation, and the completed trustee format is then attached to the form.

The suggested formats for the trustee designation appear as attachments to Benefits Administration Letter BAL 98-106, and can be viewed and printed as .pdf files from the OPM Internet Homepage at <http://www.opm.whatsnew.htm> using Adobe Acrobat.

THRIFT SAVINGS PLAN OPEN SEASON

A Thrift Savings Plan (TSP) open season began 15 May 1998, and will continue through 1 July 1998. Open season is your chance to start or change your contributions to your TSP account. You can also change the way your future payroll contributions are invested in the three TSP funds. These funds are described later in this bulletin.

Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS) employees hired before July 1, 1997, are already eligible for the TSP. New FERS employees are eligible as follows:

If you were hired:	You Can Join The TSP In Open Season:	Your Agency Automatic (1%) Contributions Will Begin:
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July 1, 1997 - December 31, 1997	May 15, 1998 - July 31, 1998	First Full Pay Period in July 1998
January 1, 1998- June 30, 1998	November 15, 1998 - January 31, 1999	First Full Pay Period in January 1999
July 1, 1998 - December 31, 199 8	May 15, 1999 July 31, 1999	First Full Pay Period in July 1999

If you are a rehired employee, or if you have questions about your eligibility, contact your CPAC/Human Resources Office.

What is the Thrift Savings Plan? The Thrift Savings Plan is a retirement savings plan for FERS and CSRS employees. Because your TSP account is for your retirement, there are restrictions on withdrawing your money while you are employed. A major advantage of the TSP is that you pay no taxes on contributions or earnings until you withdraw your account.

If you are covered by FERS you can contribute up to 10% of your basic pay each pay period, up to the annual Internal Revenue Service limit (\$10,000 for 1998). Your employer matches your contributions dollar for dollar on the first 3% you contribute each pay period, and 50 cents on the dollar for the next 2% you contribute.

Also, your employer automatically contributes an amount equal to 1% of your basic pay each pay period, whether you contribute or not.

If you are covered by CSRS you can contribute up to 5% of your basic pay each pay period, up to the annual IRS limit (\$10,000 for 1998). You do not receive any agency contributions.

You can choose among three investment funds:

Government Securities Investment (G) Fund - invested in short-term, risk-free U.S. Treasury securities that are specially issued to the TSP

Common Stock Index Investment Fund - invested in a stock index fund that tracks the Standard & Poor's (S&P) 500 stock index

Fixed Income Index Investment (F) Fund - invested in a bond index fund that tracks the Lehman Brothers Aggregate (LBA) bond index

TSP returns are calculated monthly. You can get the most recent returns by calling the TSP ThriftLine at (504) 255-8777 or by visiting the TSP Website at www.tsp.gov. More information is also available from your CPAC/Human Resources Office.

To sign up for the TSP or make changes, ask your CPAC/Human Resources Office for TSP Election Form (TSP-1). Submit your completed form to your CPAC/Human Resources Office before the end of the Open Season. Your contributions will be made automatically from your pay each pay period, as explained on the back of FORM TSP-1.

For more information on the TSP, visit the web site at <http://www.tsp.gov/forms/otherf.html>.

THRIFT SAVINGS PLAN IN-SERVICE WITHDRAWALS

The Thrift Savings Plan (TSP) Act of 1996 (Public Law 104-208) provided for two types of in-service withdrawals. TSP participants who have not separated from Federal service may elect to withdraw funds from their TSP accounts in they are age 59 1/2 or older or if they are experiencing financial hardship. This includes participants who are in nonpay status.

Age-Based In-Service Withdrawals

Employed participants who are age 59 1/2 or older may withdraw all or any portion of their vested account balances. The minimum amount of an age-based in-service withdrawal is \$1,000 or the participant's entire vested account balance, whichever is less.

Participants may elect to receive a dollar amount or their entire vested account balance. If participants elect a dollar amount that is greater than the vested account balance, they will receive the entire vested account balance. Age-based in-service withdrawals are disbursed as single

payments and are **taxable** income for Federal income tax purposes in the year in which the payments are made. They are "eligible rollover distributions" and are subject to mandatory 20% Federal income tax withholdings. They are not subject to the 10% early withdrawal penalty tax.

Participants may ask the TSP to transfer all or any part of their payments to an Individual Retirement Arrangement (IRA) or other eligible retirement plan. The amount the TSP transfers is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the plan to which it was transferred) and, consequently, is not subject to income tax withholding.

Financial Hardship In-Service Withdrawal

Employed participants (regardless of age) who demonstrate financial hardship may withdraw their own contributions and attributable earnings from their TSP accounts.

The maximum amount of a financial hardship in-service withdrawal is the amount of a participant's Employee Contributions and attributable earnings or the amount of the participant's demonstrated need, whichever amount is smaller. Participants specify the requested dollar amount, which must be \$1,000 or more. Participants must demonstrate their financial need of \$1,000 or more by providing financial information and, if applicable, the documentation requested on the application form.

There is no restriction on the number of financial hardship in-service withdrawals that a participant may take. However, after a participant receives a financial hardship in-service withdrawal, he or she may not apply for another financial hardship in-service withdrawal for a period of six-months.

Participants who receive financial hardship in-service withdrawals may not make Employee Contributions (and FERS participants will not receive attributable Agency Matching Contributions) for a period of six months.

Financial hardship in-service withdrawals are disbursed as single payments and are taxable income for Federal Income tax purposes in the year in which the payments are made. They are "eligible rollover distributions" and are subject to mandatory 20% Federal income tax withholding. **In addition, financial hardship in-service withdrawals are subject to the 10% early withdrawal penalty tax if the participant is less than age 59 1/2 at the time of payment.**

Participants may ask the TSP to transfer all or any part of their payments to an IRA or other eligible retirement plan. The amount the TSP transfers is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the plan to which it was transferred) and, consequently, is not subject to income tax withholding.

In-Service Withdrawal Products and Forms

The Booklet TSP In-Service Withdrawals explains in-service withdrawals to participants. Booklets are available from your CPAC/Human Resources Office. The booklet is also available on the TSP Web site at www.tsp.gov. (Click on Forms & Publications, then click on Booklets.)

Application forms are available from the TSP Web site www.tsp.gov or the TSP Service Office:

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500
(504) 255-7000

To apply for age-based in-service withdrawal, participants must complete Form TSP-75, Age-Based In-Service Withdrawal Request. To apply for a financial hardship in-service withdrawal, participants must complete Form TSP-76, Financial Hardship In-Service Withdrawal Request. When participants sign Form TSP-76, they acknowledge that the receipt of a financial hardship in-service withdrawal will require termination of their Employee Contributions (and attributable Agency Matching Contributions for FERS participants) for a six-month period.

Participants must also provide a copy of their current earnings and leave statements (even if they are in nonpay status) and, if they list extraordinary expenses on Form TSP-76, they must also submit the appropriate supporting documentation.

Notice, *Important Tax Information About TSP In-Service Withdrawal Payments* describes the tax rules that apply to in-service withdrawals, and supplements the information contained in the in-service withdrawal booklet. The notice is part of the application package and is attached to Forms TSP-75 and TSP-76.

WILLIAM D. ST. JOHN
Director of Human Resources